

Copenhagen Offshore Wind 2005

Sharing risks – or passing the buck?

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The logo for Vestas, featuring the word "Vestas" in a stylized, italicized font with a registered trademark symbol, positioned on the right side of a dark blue horizontal bar.

- Impact of construction risks and project risks on availability of non-recourse project finance
- Past, present and the future
- Risks and Rewards
- Bonding
- Lessons learnt

- The times they are a'changing (Bob Dylan)

Onshore Developments

- From Wind Turbine Generators to Wind Power Plant
- From supply contracts to EPC-contracts
- From (full recourse) balance sheet finance to (non-recourse) project finance
- From corporate guarantees to bank warranty bonds

Offshore Developments

- Vestas accepted EPC risks
- Vestas accepted bank warranty bonds
- **Lessons we have learnt**
- Back-to-back conditions do not mitigate Vestas risks
- Focus on financially strong and experienced partners
- Ability to secure remedial action and develop contingency planning.
- Bonding - a potential bottleneck

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- Vestas objectives
 - EBIT 10%
 - Working Capital year end 20-25%
 - Vestas focus:
 - Contractual business risks
 - Profitability for Vestas
 - Off-shore supply contract / split contract
 - Bank warranty bonds

Major Issues

- Price
- EPC / consortium or split contract
- Data risks; e.g. weather and soil
- Reasonable endeavour / guaranteed performance
- Fit for purpose / reasonable care and skill
- Time extension
- Warranty pass procedure
- LD's on WTG or line basis
- Availability calculation

Project finance – yet to come

- Off-shore projects – financed through limited recourse or sponsor balance sheet only
 - Implementation risks
 - Technology risks
 - Operational risks
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- Project Finance is in everybody's best interest

Project Finance in the future?

- **Present:**
 - Each party looks after his own best interest
- **Future:**
 - Balanced distribution of risks (partners)
 - Sponsor / Supplier / Banks / ECA's / Insurance market
 - Which party best to undertake risk mitigation
 - Managing risks not equal to absorbing costs
 - Sub-ordinated Stand-by Facility – a vehicle to improve bankability?